



MEMORANDUM

To: Members of the Investment Subcommittee

Cc: Nohora Gonzalez, Deputy State Treasurer
Jason Staib, Deputy Attorney General

From: Stephen W. McVay, Cash Manager

Sent: October 25, 2017

Subject: Northern Trust Investment Account Restatement and Performance Reporting

Background

At the Investment Subcommittee (Subcommittee) meeting on August 9, 2017, the Office of the State Treasurer (OST) circulated the Inventory Valuation Methods memo to inform reporting errors with Northern Trust (Custodian) requiring restatement of all monthly performance reports from December 2016 through June 2017. The Subcommittee requested quantification of restatement changes and the update on the process for correction at the November meeting.

Impact from Restatements

As a result of implementing the incorrect accounting method, all investment accounts were impacted. The Custodian restated all monthly accounting and performance statements since onboarding providing a clean audit trail.

The process was completed in mid-August with additional review by OST staff. Recognized income was understated by \$46,400 approximately. During the restatement process, one manager reported discrepancies on performance results relative to their internal numbers. Upon review, it was determined that the Custodian loaded incomplete and incorrect historical data for this manager resulting in an overstatement of approximately \$14,400. Therefore, the restatement process yielded a net understatement of \$32,000 which equates to less than one-fifth of a basis point increase from the previous statements for the \$1.8 billion portfolio.

Migration/Onboarding Protocols

OST documented a series of protocols for future custodian migrations as well as the onboarding of investment managers. As part of these protocols, data quality and validation will be greatly monitored.